

- ERDF and ESF
- EUR 300 000
- Loans + non-financial support
- Businesses support and entrepreneurship
- Champagne-Ardenne region, France

... the combination of economic objectives and social goals leads to job creation ...

Microcredits for social inclusion

France

Case Study



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The authors of this study are a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, infeurope and Spatial Foresight.

Abbreviations

Abbreviation	Full name
ADIE	Association pour le Droit à l'Initiative Economique - Association for the Right to Economic Initiative
ERDF	European Regional Development Fund
DIRECCTE	Direction Régionale des Entreprises de la Concurrence, de la Consommation, du Travail et de l'Emploi - Regional Directorate for Enterprises, Competition, Consumption, Labour and Employment
ESF	European Social Fund
ESIF	European Structural and Investment Funds
OP	Operational Programme
SGAR	Secrétariat Général pour les Affaires Régionales - General Secretariat for Regional Affairs (within the Champagne-Ardenne préfecture)



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1 Summary

This case study describes how resources from the European Social Fund (ESF), the European Regional Development Fund (ERDF), and national co-financing were used in the former Champagne-Ardenne region in France to support local entrepreneurship. From late 2009 to the end of 2010, the 'Microcrédit ADIE professionnel' (the financial instrument) targeted unemployed and disadvantaged people, offering microcredits of up to EUR 10 000 co-financed by the ERDF, complemented by another operation co-financed by the ESF providing coaching and mentoring. The financial instrument supported start-up projects proposed by unemployed people such as Mau, a 29-year-old, who received funding to open her own clothing store. Non-financial support provided by ADIE (Association pour le Droit à l'Initiative Economique) through ESF funding helped Mau to prepare her business plan and learn about practical, administrative and legal issues related to business creation and management.

This example illustrates how ESF and ERDF resources can be combined in two separate operations in a complementary way to promote job creation and the reintegration of disadvantaged people into the labour market through financial instruments. It also illustrates benefits stemming from the revolving nature of financial instruments, since the finance provided has been almost three times more than the amount initially allocated to the fund and could support 286 local entrepreneurs by September 2015.

The combined provision of finance and advice to final recipients was one of the main success factors of the initiative that also benefited from the fund managers' sector expertise and local networks. However, stakeholders perceived the rules and procedures for assessing projects, monitoring and reporting to be complex, especially in relation to the small size of the microcredits and the limited education of final recipients. Drawing on experience from the previous programming period, the managing authority of the Champagne-Ardenne Operational Programme (OP) will continue using financial instruments in the 2014-2020 programming period. It is envisaged that guarantees, loans and risk capital will be provided through the regional ERDF-ESF OP.



Microcrédit ADIE professionnel – France

THE FINANCIAL INSTRUMENT

Funding source

ERDF, Regional OP Champagne-Ardenne 2007-2013
ESF, National ESF OP France 2007-2013 (non-financial support)

Type of financial support

Microcredits combined with non-financial support

Financial size

EUR 300 000 total OP resources (EUR 150 000 from ERDF and EUR 150 000 from regional co-financing)
Additional EUR 160 000, of which EUR 72 000 from ESF, was used for coaching and mentoring in a separate operation

Thematic focus

Businesses support and entrepreneurship

Timing

October 2009 to December 2010

ACHIEVEMENTS

Absorption rate

100% of OP resources: ERDF, ESF and regional funding (at December 2010)

EU leverage

2 times¹

Leverage of public resources

1 time²

Re-investment

186%³ (at September 2015)

- 1 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 300 000, divided by the total amount of ERDF allocation to this financial instrument, i.e. EUR 150 000. It does not include the reuse of resources returned to the instrument.
- 2 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. EUR 300 000, divided by the total amount of public resources allocated to this financial instrument, i.e. EUR 300 000. It does not include the reuse of resources returned to the instrument.
- 3 More than EUR 560 000 in addition to the EUR 300 000 initially invested in the financial instrument.



PARTNERS INVOLVED AND OUTPUTS

Partners involved

SGAR (General Secretariat for Regional Affairs) Champagne-Ardenne (managing authority ERDF)
Regional Council (conseil régional) of Champagne-Ardenne⁴ (intermediate body ERDF)
DIRECCTE Champagne-Ardenne (regional arm of national managing authority ESF)
ADIE (fund manager, non-profit organisation)

Main outputs

105 people supported in the first round, improvement in the survival rate of their businesses, high satisfaction of final recipients for the services provided.

A total of 286 entrepreneurs supported in the first and further rounds, including revolving funds (at September 2015).

4 Since the regional re-organisation of France as of January 2016, the administrative region of Champagne-Ardenne has been merged with the (formerly known) Alsace and Lorraine regions. The case study concerns the 2007-2013 programming period and therefore Champagne-Ardenne corresponds to the respective regional administration organisation.

2 Description of the financial instrument

The financial instrument (ERDF) is combined with non-financial support (ESF) to promote local entrepreneurship and help disadvantaged people re-enter the labour market, thus fulfilling ERDF and ESF objectives at both regional and national levels. The fund manager provides microcredits to help entrepreneurs to start their own business, as well as coaching and mentoring to increase their management capability and business sustainability.

2.1 Rationale

Champagne-Ardenne is in north eastern France, bordering Belgium. The four departments of Ardennes, Marne, Aube and Haute-Marne have a population of 1.3 million people. This is about 2% of the total French population and has been declining since the 1980s. The rural area is famous for its production of champagne, which explains the importance of agriculture and agro-industry in the regional economy. The territory is also specialised in traditional industries (textile and metal), which have suffered from international competition in recent decades and from the financial crisis.

The financial instrument and related advisory services were intended to support workers and enterprises in adapting to the changing economic context, a need identified by the ESF national OP, and address some development challenges identified by the ERDF regional OP Champagne-Ardenne:

- to develop and internationalise businesses such as artisans, commerce and tourism;
- to develop the service sector, fostering new businesses and the growth of existing ones;
- to promote entrepreneurship.

For the ESF, priority axis 1 of the ESF national OP 2007-2013 supported the creation of economic activities and promoted self-employment by providing training, mentoring and assistance to business creators that could supplement ERDF interventions.

In parallel, priority axis 2 of the ERDF regional OP Champagne-Ardenne 2007-2013 was designed to address the three abovementioned issues, by targeting sectors that are not highly structured in the region, such as services, or that are in economic transition, such as textiles and heavy industry. The priority axis was intended to create new jobs and support unemployed people encouraging self-employment and business creation. It also had the objective of increasing the survival rate of enterprises in the region, which was the lowest in France.

To reach these objectives, the ERDF regional OP identified the need to adapt regional financial instruments to support the different phases of business creation and development with adequate funding. In total EUR 7 million was allocated to financial instruments under the priority axis, representing around 45% of the funds for entrepreneurship and 16% of ERDF financial resources allocated to the priority axis. Out of which EUR 0.3 million was allocated to the financial instrument providing microcredits.



2.2 Organisational structure

Start-ups received support from three sources (ERDF, ESF, public regional) and two operations: (a) the financial instrument and (b) the non-financial services, as described in Table 1 and Figure 1 below.

For operation (a), the ERDF regional managing authority, the SGAR at the prefecture of Champagne-Ardenne appointed the Champagne-Ardenne regional council as intermediate body for the measure. A global grant was allocated to the intermediate body to implement the financial instruments, of which EUR 300 000 (50% from ERDF and 50% from the regional council) was allocated to the financial instrument providing microcredits.

The intermediate body appointed ADIE as fund manager. ADIE is a non-profit organisation that covers all of France with more than 117 regional offices, and collaborates with a large network of national and international microfinance organisations. ADIE was selected based on extensive experience in microfinance, dating back to its creation in 1989. In addition, ADIE had three local offices in the region (in Charleville-Mézières, Reims and Troyes), which ensured the ability to reach potential final recipients. The agreement between the regional council and ADIE covered a relatively short period of time, from October 2009 to December 2010.

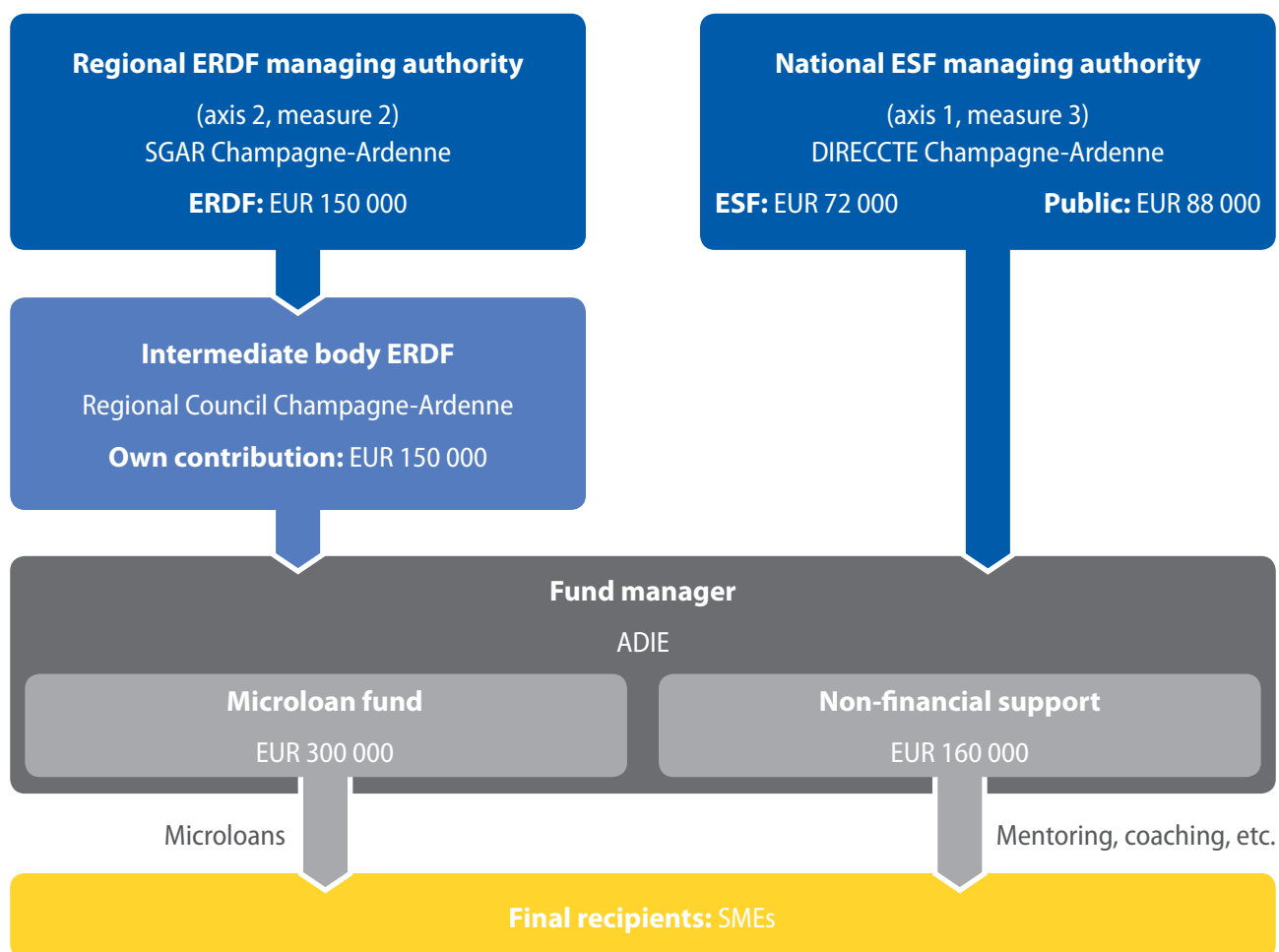
Operation (b) was provided in parallel to ERDF funding, as ADIE Champagne-Ardenne benefited from national ESF financial support for the 2007-2013 programming period. This financing was allocated by the national ESF managing authority's regional arm, DIRECCTE Champagne-Ardenne to ADIE to cover costs related to support and coaching provided to final recipients of microcredits. Financing from the ESF national OP to ADIE in Champagne-Ardenne for 2009-2010 was approximately EUR 160 000 and reached about EUR 430 000 over the entire programming period. It was provided separately from the ERDF financial instrument.

Table 1: Combined support for start-ups in Champagne-Ardenne (October 2009 – December 2010)

Funding sources	EUR
Microcredits (operation a)	
ERDF	150 000
Public (co-financing)	150 000
- of which regional public funds (ERDF intermediate body)	150 000
TOTAL	300 000
Non-financial support (operation b)	
ESF	72 000
Regional co-financing	88 000
TOTAL	160 000



Figure 1: Organisational structure of the operations



MD10: Objective of the investment

Mau is 29 years old and does not have a professional qualification. She had 10 years of experience in the restaurant industry and was unemployed for a few months before contacting ADIE. She had a plan to open a clothing store, but no financial resources to support her project. With a microcredit and the non-financial support from ADIE, Mau opened MD10, a clothing store for women and children, at the beginning of 2011 in Troyes.



2.3 Financial product and final recipients

The financial instrument provided microcredits from EUR 1 000 to 10 000, with a maximum repayment period of two years. The microcredits were at market conditions, so in 2009 the interest rate was 9.79%. So the financial product was considered not to constitute State aid. The average microcredit was EUR 2 845.

Final recipients were unemployed people, or people at risk of social exclusion that wished to create their own enterprise and job, but were unable to access financing. ADIE targeted individuals with low educational skills, who were very often recipients of social security benefits.

The majority of recipients who applied for a microcredit had no specific skills in running a business, and usually had very limited legal or administrative knowledge or even the capacity to prepare a business plan. This lack of knowledge and capacity made it essential to provide personal assistance in business creation and management. Specifically, final recipients received support for business development, implementation of accounting and administrative procedures, networking with other micro-entrepreneurs, training and participation in thematic seminars. This 'coaching' component was provided free of charge by permanent members of ADIE and other experienced and trained volunteers. Part of the support was online, through ADIE's internet website, but there was also personal mentoring, on an 'as-needed' basis.

3 Main features of financial instruments working with microcredits for social inclusion

The main objective of the financial instrument was to support social goals, especially job creation and the reintegration of disadvantaged people in the labour market. Up to December 2015, ADIE had financed more than EUR 860 000 (including the revolving funds) in microcredits and provided financial support to 286 new businesses since the launch of the financial instrument in 2009.

3.1 Design phase

Financial instruments were mentioned in the ERDF regional OP Champagne-Ardenne, with no particular focus on microcredits. This financial instrument was designed as a second step, after approval of the ERDF regional OP Champagne-Ardenne, to provide disadvantaged people with microcredits for business creation and development. The ERDF managing authority did not carry out a market gap assessment, beyond the ex-ante evaluation of the OP as there were no related legal obligations in the 2007-2013 programming period to have such an assessment prior to implementing a financial instrument. The investment strategy was to reach business creators not covered by commercial financial institutions while also contributing to labour market reinsertion of the disadvantaged. The financial instrument was designed to complement the other entrepreneurship support provided by the ERDF OP.

The ERDF managing authority selected ADIE, a well-established non-profit microfinance provider with a local network developed throughout the whole French territory, as fund manager.

3.2 Set-up phase

The investment risk remained entirely with the managing authority and intermediate body, since the fund manager did not contribute co-investment to the financial instrument.

For monitoring and reporting, the fund manager had to deliver a final report of activities, detailing the microcredits provided at the end of 2010. Furthermore, the fund manager sent an annual statement on microcredit repayments to the intermediate body.

MD10 clothing store: Application and administration

As a first step, Mau met an ADIE credit advisor. Then she prepared a business plan with ADIE's support. The fund manager also supported through ESF specific assistance with administrative and legal issues related to business creation. As a second step, ADIE offered Mau a microcredit of EUR 6 000 for investments, which was supplemented by a seed-loan of EUR 4 000 with a zero interest rate. Funds were delivered quickly, which allowed Mau to start the business within three months. Afterwards, Mau participated in mentoring and training activities on business management provided by ADIE and co-financed by the ESF.



3.3 Implementation phase

Applicants for funding had to be people out of work that intended to create their own businesses. Before acceptance, projects were assessed according to standard procedures and criteria defined in the investment strategy. These included an evaluation of the potential of projects, including the customer base, expected turnover, skills and motivation of the applicants and their ability to repay. Particular attention was paid to ensure that repayment obligations would not put the final recipients in a precarious financial situation.

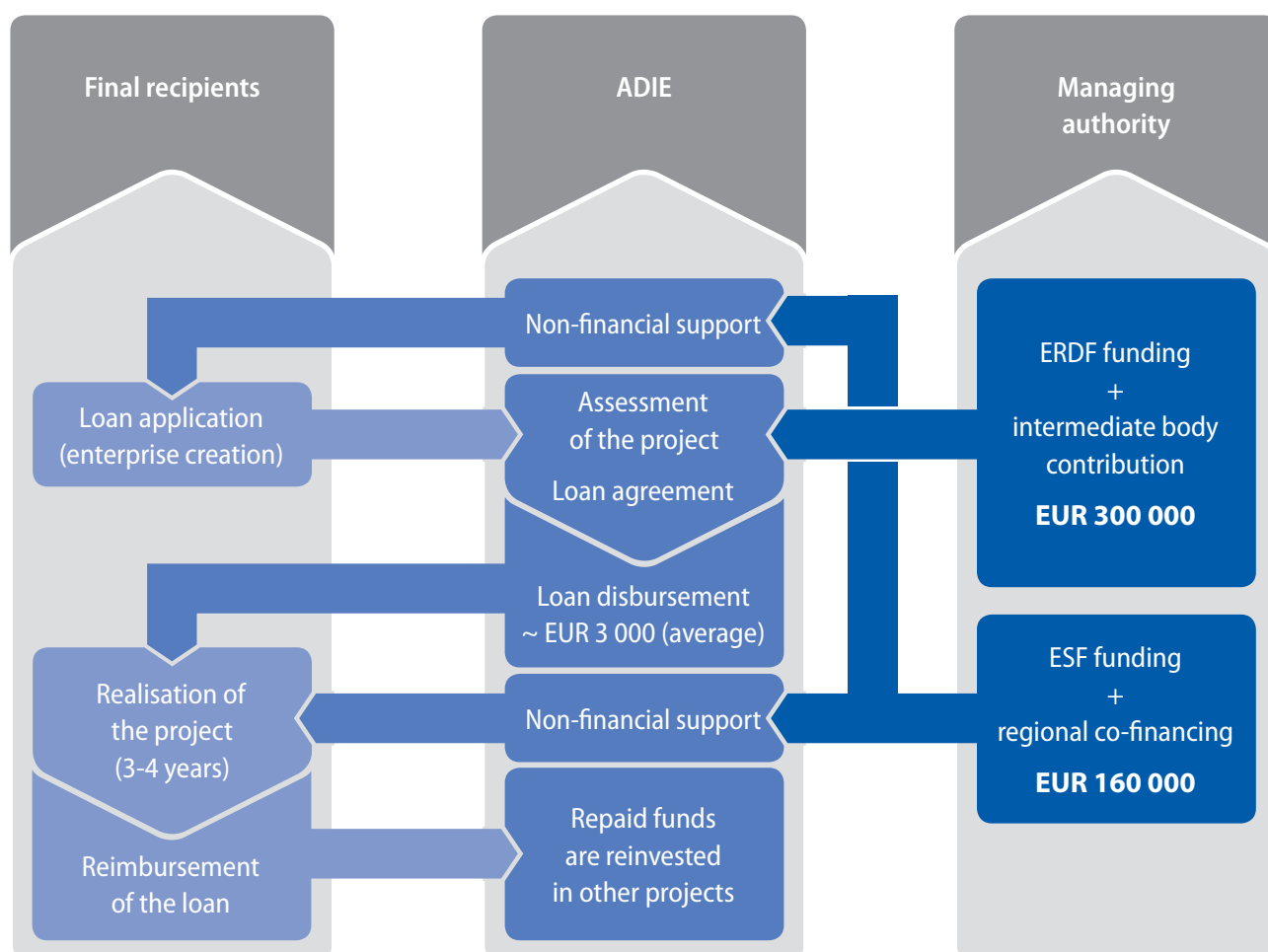
Project selection was carried out in two steps. First, ADIE advisors carried out one or two interviews with potential final recipients to analyse their needs for financial and non-financial support. Based on analysis provided by the advisor, a final decision was made by a credit committee including ADIE local managers and advisors, volunteers of the association and other local business experts.

The target final recipients were difficult to reach through standard socio-professional organisations and information channels, which made the extensive experience of ADIE supporting disadvantaged persons in the region particularly important. The main channels to inform people of the opportunities offered by microcredits were through the internet, mass media and newspapers, direct contact with staff in ADIE's local offices, regional partners of business creation (public and private organisations), *Pole Emploi*, the French agency for employment, as well as word-of-mouth and other informal channels.

Implementation requirements and procedures for monitoring and reporting were perceived as complex, considering the small size of microcredits and the targeted recipients.

The scheme of implementation is briefly described in Figure 2 below.

Figure 2: Process of accessing the financial products



3.4 Winding-up phase

The funding agreement between the regional council and ADIE ended in 2010. The resources initially invested and then progressively reimbursed was left in ADIE and re-invested after the eligibility period. This has led to more than EUR 860 000 at September 2015 in microcredits for 286 new businesses since the launch of the financial instrument in 2009.



4 Achievements and challenges

Combining financial support and non-financial advice contributed to more inclusive growth in the region. More than 105 individuals obtained financing through ADIE microcredits in the first investment round, while the survival rate of the supported businesses was 70% after two years.

4.1 Outcome

Over the 15 months covered by the funding agreement, 105 people obtained financing. The default rate for projects was relatively low, at around 3.8%, with a loss on the portfolio of about 3.2%. The survival rate of businesses supported by ADIE in the region was 70% after two years and 58% after three years, which is higher than at the national level. In total 94% of the micro-entrepreneurs supported were satisfied with the financial and non-financial support received.

4.2 Main achievements

The contribution from the ERDF regional OP Champagne-Ardenne helped ADIE to increase its reach with more resources to support local aspiring entrepreneurs. Combining with resources from the ESF national OP increased the capacity and sustainability of intervention in the region.

Overall, the financial instrument contributed to better integration of disadvantaged people into the labour market, promoting social inclusion in the region.

4.3 Main challenges

The main challenge faced by the fund manager was the administrative burden, both related to disbursement of ERDF resources as well as to ERDF implementation rules. However, the experience of the fund manager with similar support schemes allowed the processes to be smoothed as much as possible.

MD10: Advantages and challenges of the financial instrument

Thanks to the ADIE financial and non-financial support, Mau had the opportunity to open her clothing store in the centre of Troyes. After only a few months of activity, her company was doing well. Mau reached her profit target, and the business turnover was above her expectations. In the longer term Mau intends to develop her business further and hire an employee. Despite the hard work, she is very satisfied with her professional life and recommends that people with similar projects should start their own businesses.

5 Lessons learned and outlook

Combining microcredits with non-financial support was crucial to success, as it helped develop business ideas and increased the chance of new enterprises to survive. Another important success factor was the selection of a fund manager specialised in microfinance, who provided professional expertise and access to relevant networks in the region, including to voluntary organisations supporting the disadvantaged.

ADIE thought that the implementation rules and procedures, especially for disbursement of resources, monitoring and reporting, were complex, considering the small size of the microcredits and the low education level of the target final recipients. Other aspects mentioned as critical by the fund manager included the delayed payment of programme resources to the financial instrument (which forced ADIE to advance the funds). The fund manager suggested that microcredits would work better on a multi-regional or national scale, so it could offer greater flexibility and support where it is most needed. In addition, the short period covered by the funding agreement (15 months) did not correspond to the project lifetime (around 3-4 years).

Drawing on experience from the previous programming period, the managing authority of the ERDF Champagne-Ardenne OP intends to continue using financial instruments in the 2014-2020 programming period. Support for businesses will probably be through guarantees, loans and risk capital. However, it is not yet clear if microcredits to socially vulnerable groups would be provided by the ERDF-ESF regional programme or through the ESF national programme.

